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MEMORANDUM FOR DISTRIBUTION

Subj: REPORT ON UNDEFINITIZED CONTRACTUAL ACTIONS (REPORT
NO. D-2004-112)

Periodically, the DoDIG is required to conduct an audit of undefinitized contract actions (UCAs) and submit a report to Congress on the management of UCAs for each military Department. The subject audit report discusses the need for improvements in the management of UCAs and provides six recommendations to the three military services reviewed. In essence, the report identified deficiencies in three areas: incomplete justifications issued, untimely definitization, and insufficient documentation supporting the negotiated profit rates. Although we believe the DFARS adequately addresses the statutory and regulatory requirements relative to UCAs, the subject DoDIG audit report is an indication of the need to reiterate these requirements.

As stated in DFARS 217.7404-1(a), the request for approval to enter into a UCA "must fully explain the need to begin performance before definitization, including the adverse impact on agency requirements resulting from delays in beginning performance." Accordingly, the contract file should contain adequate written documentation justifying the decision to use a UCA, including a detailed description of the adverse impact on agency requirements resulting from delays in beginning performance, if a UCA was not issued. Moreover, the results of acquisition planning for the procurement should be included in the contract file, as additional support for use of the UCA.


DFARS 217.7404-3, Definitization schedule, provides statutory requirements regarding definitization schedules and milestones for UCAs. UCAs must contain definitization schedules that comply with these requirements and the contract files should include written explanations for anticipated late definitizations and any schedule extensions that occurred.

Finally, DFARS 217.7404-6, Allowable profit, addresses profit considerations for UCAs when the final price of a UCA is negotiated after a substantial portion of the performance has been completed. Accordingly, the profit analysis in the price negotiation memorandum or the weighted guidelines should contain

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evidence that allowable profit factors, such as reduced cost risk, were considered prior to negotiation of the final price.

It is requested that you remind cognizant acquisition and contracting personnel to be diligent in complying with the DFARS statutory and regulatory requirements on UCAs and emphasize the importance of including adequate documentation in the contract files.


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for DASN (ACQ)

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